

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Larry D. Lisenbee
Budget Director

SUBJECT: 2004-2005 PROPOSED FEES AND
CHARGES REPORT

DATE: May 7, 2004

APPROVED:

DATE:

5-7-04

Contained in the document that follows are the proposed fees and charges for the 2004-2005 fiscal year. Included are the majority of the fees and charges accruing to the City's General Fund. Not included are a number of the fees assessed by the City's enterprise operations (e.g., Airport, Downtown Parking, and Convention Center Facilities) that are brought to the City Council for consideration in a different form. Certain other fees have already been approved by the City Council (e.g., Aquatics and Family Camp Program Fees in the Parks, Recreation and Neighborhood Services Department) but are displayed here for informational purposes.

The fees proposed in this document are assumed in the revenue estimates contained in the City Manager's 2004-2005 Proposed Operating Budget. The General Fund fee changes proposed would result in an increase of approximately \$12.9 million over the amount estimated to result if no changes to the 2003-2004 fee levels were approved. The increases primarily reflect changes proposed

in conformance with Council direction to match revenues with program costs in order to maintain cost recovery.

Cumulative departmental fees and charges for 2004-2005 are projected to result in total revenue receipts of \$74.9 million, of which \$69.8 million will accrue to the General Fund. This amount represents approximately 9.6% of total General Fund revenues included in the 2004-2005 Proposed Operating Budget. For all cost-recovery fee programs (excluding penalties, fines and non-cost-recovery activities), the proposed fees and charges will enable recovery of approximately 99% of overall fee program costs for 2004-2005. This is an increase from the approximately 98% budgeted in 2003-2004.

The body of this report contains a listing, by responsible department, of the details of proposed fee levels and estimated costs for the service for which the fee is assessed. In developing the 2004-2005 fee structure, staff was guided primarily by the City Council's policy direction to strive for 100% cost-recovery for fee-related programs.

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Where appropriate, however, fees also take into consideration approved exceptions to the City Council's full cost-recovery policy, as well as applicable State laws.

In general, all fee programs have been reviewed to ensure that service levels remained adequate to meet anticipated demand, and that fee programs at least remained as close as possible to current levels of cost-recovery. Where possible, progress toward achieving the full cost-recovery goal is recommended.

The departments, with an overall cost-recovery level below 100%, all administer fee programs that the City Council has previously directed to remain at less than cost-recovery in order to assure public access to services such as public records, recreation programs, and library materials and services. In view of this direction, no action plans for increasing cost-recovery levels beyond the 2003-2004 adopted level are recommended for these programs.

Highlights of the 2004-2005 Proposed Fees and Charges Report include the following:

DEVELOPMENT FEE PROGRAMS

During the last several years, although development fee program activity has remained relatively constant, there has been a shift away from commercial and industrial construction activity to residential construction activity, which has produced a detrimental impact on overall revenue collections. Prior to the 2002-2003 budget, many development service fees had fallen significantly below the

full cost of providing the services. As a result, the City Council adopted a plan to phase in fee increases to restore cost recovery starting with the 2002-2003 budget.

The four major development fee programs (Planning, Building, Fire, and Public Works) have partnered together to hold a series of meetings with the development community to address the long-term financial health of the development fee programs and to develop a program that meets their needs. Included in the 2004-2005 Proposed Operating Budget and the fee adjustments contained in this document are attempts to strike the balance required by the industry – an equitable structure and a predicted level of performance.

In response to the City Council's Getting Families Back to Work Study Sessions, the adopted Economic Development Strategy, and recommendations from development industry groups, the City's development service partners are making great strides in the effort to provide seamless, predictable, and timely service to development customers. With a new emphasis on facilitating as opposed to simply regulating, staff from all four development fee programs meet regularly in an effort to ensure that the development process speaks to customers with one voice.

Also included in the Development Fee Program section are development-related fees detailed in the Transportation Department's fee program; however, these fees are not considered part of the City's major development fee programs.

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DEVELOPMENT FEE PROGRAMS (CONT'D.)

Planning, Building and Code Enforcement Department –

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to processing development permit applications, ensuring that construction in San José conforms to applicable building codes and regulations. The Department also collects fees for multiple housing permits, solid waste enforcement, neglected/vacant building registration, landfill closure and post closures, auto body repair shop permits, auto dismantler permits, and the abandoned cart program.

While all categories of new construction as well as commercial and industrial alterations are down (activities where valuations are higher relative to corresponding service demand), the labor-intensive residential remodeling activity sector is booming, resulting in declining construction valuations while service demand continues to grow. It is estimated that the proposed Planning, Building and Code Enforcement Department development-related fees and charges program for 2004-2005, excluding use of fee reserves, penalties and interest, will raise revenues of \$27,369,575, reflecting a cost recovery rate of 99.3%. This proposed cost recovery level represents an increase from the 2003-2004 adopted level of 97.3%.

The budget balancing packages for the Planning and Building Fee Programs recommended in the Proposed Operating Budget and in this document rely on a number of

common strategies: 1) programmed third phase fee increases; 2) use of reserves; 3) new fees for service; and 4) a new fee structure for residential plan review fees. The aforementioned phased fee increases are providing financial stability to the City's development services partners and have enabled the Planning and Building fee programs to maintain their core staffing level.

The individual proposed Planning and Building Fee Program actions are described in the following sections:

Planning Fee Program – A 2004-2005 base budget shortfall of \$366,500 is proposed to be eliminated primarily through fee increases proposed as part of the third year of the three-year fee plan. This third phase includes a 7% revenue increase, which would bring the Planning Fee Program to 97.3% cost recovery. While some fees remain unchanged, fee increases range from 4% to 12% depending on the cost recovery status of the particular fee.

In addition to the third phase increases noted above, the Proposed Budget balancing package for Planning includes the deletion of a Staff Specialist, the conversion of one part-time Planner to full-time, the addition of a Planning Technician to offset the loss of a General Fund Planner, the reduction of Planning staffing supported by Building Fees (2.0 FTE) and the Redevelopment Agency (0.78 FTE) in 2003-2004 and the use of \$166,817 in funds from the Planning Fee Reserve.

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DEVELOPMENT FEE PROGRAMS (CONT'D.)

Planning, Building and Code Enforcement Department –
(Cont'd.)

General Plan Update – State legislation authorizes cities to place a surcharge on development permits to fund updates of their General Plan. Included in the Proposed Budget is a 1.25% surcharge to be applied to all Entitlement and Building permit fees. The General Plan Update will take place over a two-year period from mid-2006 until mid-2008. The fee has been structured to raise \$200,000 per year for four years to fully fund the non-personal/equipment and consultant costs of the process. Beginning in 2008-2009, the fee will be lowered to the level necessary to recover the cost for the next update over a 10-year period.

Building Fee Program – The 2004-2005 base budget shortfall of \$890,000 in the Building Fee Program is proposed to be eliminated with fee increases programmed as part of the final year of a previously approved phase in plan. This final phase would generate a revenue increase of 4.3% and restore this program to 100% cost recovery for the first time since 1999-2000.

A major change approved in 2003-2004 was the option of purchasing a higher service level – guaranteed next day

inspections and expedited plan checks – at a higher, fully cost recovery price. The availability of this option has proved to be very popular. Currently 60% of Building Division customers are utilizing one of the premium service options that are tailored to different size projects, due to increased speed and certainty of service delivery.

In 2003-2004, a new fee structure for residential projects that was based on detailed historical analysis of resources rather than a valuation method was implemented. In 2004-2005 the Building Division will implement the new methodology on plan review fees.

There are no staffing changes proposed for the Building Fee Program in 2004-2005. Additional resources (two Building Inspectors and two Permit Specialists) were added during 2003-2004 to address the increased workload of the higher service level fees. These new resources are fully supported by this new fee structure in 2004-2005.

Public Works Department – The Public Works Department's Development Fee Program is responsible for the collection of various fees for private development-related activities, such as plan review and inspection of public facilities constructed by private developers, review of parcel and final maps, grading permits, geologic hazard clearance, and sewer lateral permits.

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DEVELOPMENT FEE PROGRAMS (CONT'D.)

Public Works Department – (Cont'd.)

After a steady decline during the last two years, development-related activity in the Public Works Department increased dramatically in 2003-2004 and is estimated to end the year at \$7.1 million, compared to the adopted level of \$6.4 million. Cost recovery fee increases were established in the prior year that closed the budget gap between costs and revenue and 2004-2005 revenue collections are expected to remain steady at \$7.1 million with no fee adjustments proposed for 2004-2005.

Fire Department (Development Fees) – The Fire Department administers fees for fire safety permits and inspections, fire safety plan reviews and inspections for construction projects submitted to the Building Division, fire system permits (sprinklers, fixed extinguishing systems, and fire alarm systems), hazardous materials permits, and charges for fire reports, documents, and photographs.

Excluding fines that are not included in the cost-recovery calculation, the overall cost-recovery rate proposed for the Fire Department 2004-2005 fee program is 100%, an increase from the 98.2% cost-recovery rate in 2003-2004.

Without the revenues to this program proposed in this budget, 2004-2005 revenues would be well below cost

recovery levels due to the combination of a continued general economic slowdown and increasing program costs. A combination of cost saving measures and fee increases have, therefore, been recommended in the 2004-2005 Proposed Operating Budget to address these lower revenues and help balance the revenue shortfall.

In 2004-2005, the Fire Department is proposing to align its development-related fee structure with those of its development service partners. The changes would include the addition of a record retention fee of 5%, the alteration of plan review and inspection fee methodologies, and an increase in the hourly rate for development services. The new fee structure provides a closer nexus between fees and the cost of service and will enable the Fire Department to achieve cost recovery.

Transportation Department – The Transportation Department is responsible for the collection of fees for development-related activities which include the following categories: sale of street signs, new subdivision traffic control signs, new subdivision pavement markings, tree planting and young tree trimming in subdivisions, and signal design/review.

Moderate fee adjustments have been recommended in this budget for all of the development-related fees in this program to keep pace with cost increases and staff efficiencies, and/or maintain full cost-recovery.

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OTHER FEE PROGRAMS

City Clerk – The City Clerk is responsible for making all official City Council records and documents accessible to the public and conducting elections for Mayor, City Council, and ballot measures. The Office of the City Clerk also performs special research and notary services on a fee basis.

No fee adjustments have been proposed for this Office in 2004-2005.

Conventions, Arts and Entertainment Department – The Department is responsible for the collection of fees related to the Office of Cultural Affairs activities. These include various event and use permit fees.

The following fee adjustment has been recommended to maintain cost-recovery levels in this category: Paseo/Plaza use permit fees and related amendment fees.

Office of Economic Development – The Office of Economic Development is responsible for administering the City's Foreign Trade Zone and Subzones, which includes processing applications, boundary modifications, and contract negotiations and extensions.

There are two new fees proposed by the Office of Economic Development for 2004-2005, a Foreign Trade Main Zone application fee and a Foreign Trade Main Zone expansion fee. The purpose of these new fees is to recoup fees the federal Foreign Trade Zones Board charges the

City for additional Foreign Trade Main Zones and Foreign Trade Main Zone expansions.

Environmental Services Department – The Environmental Services Department administers two fee programs as part of the Integrated Waste Management Program: Source Reduction and Recycling Fees (AB 939), and Franchise Application Fees.

Fee revenue for 2004-2005 is projected to total \$2.7 million, representing a \$500,000 decrease from last year. This expected decrease is the result of the continuation of a three-year fee shift strategy between AB939 and Franchise fees adopted as part of the 2002-2003 Adopted Operating Budget.

Finance Department – The Finance Department is responsible for collecting, accounting, and monitoring the City's tax revenues and depositing certain fees collected by other City departments.

Fee adjustments have been recommended in this budget to maintain cost-recovery levels that include these categories: Christmas Tree/Pumpkin Lot Licenses, Circus Permits, Handbill Distributors Owner's Permit, and Exempt Business Tax Applications.

Adjustments to delinquency fees related to the solid waste program, including lien processing fees and special assessment charges, are also proposed to appropriately cover administrative costs.

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OTHER FEE PROGRAMS (CONT'D.)

Fire Department (Non-Development Fees) – The Fire Department has proposed a 5% fee increase to offset remaining shortfalls in the non-development program and bring non-development Fee Program revenues closer to cost recovery. The 5% fee increase has been disseminated evenly across most of the fee categories: Annual Renewable Permits and Hazardous Materials Installation, Removal, or Alteration Permits.

In addition, an increase to Hazardous Materials Fees is proposed to recover the costs of activities performed by the Hazardous Incident Team (HIT) to evaluate plans and ensure facilities are in compliance with hazardous materials regulations. This new surcharge would be applied to “complex” facilities with a Hazardous Materials Occupancy Class that has a rating of 8-11.

Housing Department – The Housing Department administers the Rental Dispute program. This includes the Rental Dispute Mediation and Rental Mediation Penalty. In addition, Inclusionary Fees are included in this document for the first time and represent fees paid by developers if they decide to not build inclusionary (affordable) units. This fee is the amount the Housing Department would need to spend to construct a rental/owner unit in-lieu of a developer providing an otherwise required inclusionary unit. Previously, these fees were adjusted by a separate memorandum to Council and were not included in the Fees

and Charges document. Changes to the Rental Alternative Inclusionary Fee for 2004-2005 are proposed to reflect the current market price of building an equivalent rental unit.

No other fee adjustments have been proposed for this Department for 2004-2005.

Library Department – The Library Department levies fines for overdue, lost and damaged materials, and collects fees for various services such as community room rental and providing materials through other library systems.

There are no proposed fee adjustments for the Library Department for 2004-2005.

Parks, Recreation and Neighborhood Services Department – The Parks, Recreation and Neighborhood Services Department (PRNS) assesses and collects a variety of fees and charges related to the following: adult sport fees, sports field reservations, gym and fitness center fees, community center rentals, recreational and swimming lesson fees, fee activity charges, roller hockey rink skating, parking fees, admission charges for Happy Hollow Park and Zoo, picnic and other outdoor activity reservations, animal adoption and other animal shelter services fees.

In the 2004-2005 Proposed Fees and Charges Program, PRNS’s total General Fund fee revenue estimate is approximately \$8.7 million. Implementation of the proposed fee revisions will enable the Department to

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OTHER FEE PROGRAMS (CONT'D.)

**Parks, Recreation and Neighborhood Services
Department – (Cont'd.)**

improve the General Fund fee program cost-recovery level compared to the current year (89.6% compared to 77.9% in 2003-2004). For all funds, the fee program proposed for 2004-2005 would result in a cost-recovery level of approximately 92.7% compared to 80.2% for 2003-2004.

The overall cost-recovery rate continues to be less than 100% for a number of reasons. First, it is not possible to recover total program costs while also maintaining fees comparable to prevailing rates for similar services in adjacent jurisdictions. In addition a number of the fees that PRNS collects are by City Council policy set well below full cost-recovery levels in order to encourage community participation (e.g., the Summer Aquatic Program, Sports Facility Use Fees). In addition, as directed by the Mayor's March Budget Message, San José residents continue to benefit from lower fee rates than non-residents.

PRNS's 2004-2005 Proposed Fees and Charges Program has two primary drivers for the requested fee increases. The first relates to the cost factors associated with the fees (e.g. labor increases, higher overhead, and higher non-personal/equipment costs), which will drive the expenses to be recovered by fees to higher levels next fiscal year. The

second factor relates to the need to increase revenues to the General Fund next year to help balance the General Fund budget. Many of the increases requested in this document, therefore, have been submitted as part of the 2004-2005 Proposed Operating Budget as an alternative to other program reductions. The combination of these factors results in the changes proposed by the Department.

A combination of fee increases and new fees for services to be performed at the new Animal Care Center is recommended in this report. When the shelter opens, the Animal Services Division will provide adoption services, education services and other new services such as rabies clinics. The Animal Services Division will be providing new services with direct access to pet owners and it is anticipated that these new services will expand the licensing revenue base. Changes have also been proposed in several PRNS-related fee structures that include Adult Sports, Facility Rentals, Happy Hollow Park and Zoo, Parks Usage Parking and Family Camp.

**Planning, Building and Code Enforcement Department
(Non-Development Fees)** – The Code Enforcement Division of the Planning, Building and Code Enforcement Department collects fees for multiple housing permits, solid waste enforcement, neglected/vacant building registration, landfill closure and post closures, auto body repair shop permits, auto dismantler permits, and the abandoned shopping cart program.

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OTHER FEE PROGRAMS (CONT'D.)

Planning, Building and Code Enforcement Department
(Non-Development Fees) – (Cont'd.)

Fee increases are proposed for Code Enforcement's major fee programs – the Solid Waste Enforcement Fee and the Multiple Housing Occupancy Fee – to cover base cost increases and maintain popular Code Enforcement programs, including the Landlord/Tenant Training Program.

Police Department – Departmental service fees are collected from the public and from other police agencies for services such as fingerprinting, search and copying of public records, and vehicle impound release fees. Certain businesses and activities are subject to regulation, and fees are charged to offset the costs for processing permits and licenses that accompany the regulatory process and to partially offset costs for related investigative work.

Police Department fees are in the 100% cost recovery category except for the Driving Under the Influence (DUI) fee and the new Emergency Response fee. The overall cost-recovery gap (proposed cost-recovery level of 89.7%) is primarily attributable to the DUI fee and the proposed new Emergency Response Fee. DUI restitution recovers approximately 24% of the costs of DUI incidents since many offenders cannot pay the charges and, therefore, the fees are not collected.

The New Emergency Response fee is included in this category because the majority of the activity and costs are related to the Police Department emergency response area. This proposed new fee is designed to recover the costs of the City's emergency response services. The Emergency Response Fee would be imposed on all phone lines on a monthly basis and is currently estimated to cost approximately \$1.75 per phone line. The fee covers the cost of access to the emergency response capability and is the same regardless of how many times per month or per year an individual phone subscriber calls the dispatch center. More information regarding this fee will be forthcoming under separate cover through the Manager's Budget Addendum process.

The proposed fees for 2004-2005 in the Police Fee Program include increases that are also being phased in to minimize the fee impact of larger than normal cost increases. For Ice Cream Business and Ice Cream Employee License fees, a \$66 increase is being phased in over two years for New Permits, and a \$49 increase for Renewals is also being phased in over two years. For Amusement Exhibitor and Location Permits, the third year of a phase in fee increase is recommended, with fees anticipated to reach 100% cost recovery levels in 2005-2006. For Cardroom Work Permit and Renewal fees, this is the final year of a three-year phase in to move towards full cost recovery levels.

Fee adjustments reflect a thorough review of time and resources used in the permit processes and are recommended to maintain full cost-recovery levels.

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Transportation Department - Fee increases are recommended for a number of the Transportation Department non-development related fee programs to maintain full cost-recovery, and include the following categories: Taxi Stand Rental; Residential Permit Parking; Miscellaneous Fees and Charges; Meter Hood Rental; Freight Loading Zone Permits; Side Sewer Installation Reimbursement; Sanitary Sewer Wye Installation; and Sidewalk Repair - Inspection and Contract Administration.

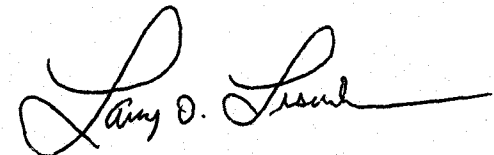
SUMMARY

Recommended fees and fee structure revisions are presented in the following summaries and detailed in the departmental sections that form the body of this report. The revenues that would result from the approval of the fees are reflected in the 2004-2005 Proposed Operating Budget.

Notification to the public and interested parties of the proposed fee program changes has been provided through various means, including direct mailings to known interested parties, and through distribution of this document to the City Clerk's Office and to Library branches. Specific notification efforts are described in each of the departmental Impact Analysis Reports contained in this document.

Public input on fee proposals will be heard by the City Council during public hearings to be held on Tuesday, May 18, 2004, at 7:00 p.m. and Monday, June 15, 2004, at 7:00 p.m. in the City Council Chambers.

During the coming fiscal year, the City Manager's Office and the responsible departments will monitor the respective fees. If revenues or activity levels warrant additional changes, appropriate adjustments will be presented for the City Council's consideration.



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